Impact of Board's Gender Diversity on Profitability: Evidence from Indian Banking Sector

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Introduction

Board members play a pivotal role in the growth of any financial as well as non financial organizations. The prime function of board members is to firm up the certainty to maximize the shareholder's wealth. Ferreira (2010) observed that the vital role of board members does not remain confined not only to formulating policies and regulation in companies but it stretch their roles to the development of strategies for the sustainability of the organization. The diversity of knowledge and experience among board members strengthen the corporate governance practise in organizations. Thus board diversity has emerged as an important phenomenon that has been knocked the door of corporate houses since couple of decades. Gail and Dechant (1997) reported that board diversity brings creativity and encourage implementing new ideas to resolve various issues and build sound relationship and social image of companies in the society. Carter et al. (2003) found that more diversity at board enhances the board independence and monitoring management. Gender level diversity at board has been drawn the attention of regulatory authorities. Brown et al. (2002) examined that the gender diversity at board level makes the board more dynamic and introduce high efficiency in context of risk management and monitoring. Campbell and Antonio (2008) found that right gender composition has significant impact on the quality of monitoring of boards of companies. But in today's male dominated society, feeble representation of women at board level in companies raised the debate across the globe. Inequality in gender diversity at top level management has been raised as a key concern by global corporate governance regulatory bodies. Women cover significant pie of global workforce. In today's male controlling corporate world, women are underrepresented at top level position. Under paid is another gender diversity issue that has been facing by global female workforce. Gender inequality at global level does not remain a social issue but it has been transformed into a global economic challenge as companies do not appear to utilize the full potential of women employees to attain the financial and economic benefits. Acker (1990) analyzed the different working approaches among male and female employees and found that men's approach towards their work was highly recognized as compared to the approach of their women counterparts in the organizations. Women leaders made impressive strides in every sphere of corporate world. With inclusion of more women on board, the company strengthen its decision making, analytical and innovations skills for sustainable future growth. Burgess and

Tharenou (2002) noticed that the companies with significant percentage of female directors got advantageous by adding their experience and professionalism in the present board that assists in completing such tasks that are in the favour of shareholders. The involvement of women at board level also leads to inject effective monitoring and controlling in the organization. Fondas and Sassalos (2000) put their weight behind the high representation of women in board composition lead to strengthen the degree of monitoring at top management to protect the shareholder's interest. They also observed the higher outlook of women towards their responsibilities at director level. Watson et al. (1993) supported the gender diversity at board level in the companies as it pervades the diversity in problem solving approaches, improve level of communication and encourage critical analysis of problems. Martin (1998) revealed the significance of inclusion of female managers that not only inculcate innovative methods of working but also raised concern about those working environment aspects which may overlook by others at board level. To boost the gender diversity in companies, many regulatory authorities have taken some sincere steps. In India, As per Companies Act, 2013, Section 149(1), the focus is on gender diversity. SEBI has mandate to have at least one woman director in the board of every listed company. Till December 2014, only 8.9% of directors at Indian companies were women.

The prime objective of the present study is to measure the effect of gender diversity on the performance of public and private sector banks of India. The reason behind selection of banking industry is its characteristics. Furfine (2001) described banks more opaque as compared to firms from non banking sectors. Kahn and Santos (2005) observed the need of high degree of corporate governance in banking sector as compared to other business sectors as it is skewed towards systematic risk. Westphal and Milton (2000) analyzed that in banking sector, higher percentage of women at board level leads to diversified knowledge and multi dimensional opinion would enhance the level of standards of policies and decision making quality.

Literature Review

In current scenario, gender diversity has been raised as a major issue of corporate governance in the board room meetings of corporate houses around the globe. A wide variety of researches have been conducted to investigate the role of Women directors in context of gender diversity on the performance of banks. The following section aims to illustrate the relevant important research studies related to the given topic:

Adam and Fesrreira (2009) examined the data pertaining to the director-level for Standard & Poor's (S&P) 500, S&P Mid Caps and S&P Small Caps firms from FY 1996 to FY 2003. The researchers enquired that nominations of women on the board of the companies enhance the efficiency and financial performance of companies. Increase in gender diversity on board helps in increasing the Return on Assets (ROA) and decrease in volatility of stock prices of companies.

Darmadi (2011) examined the impact of gender diversity on the financial performance of companies listed in Indonesia**.** The researcher evaluated the directors of 169 firms on the basis of their Nationality, Age and Gender. The findings of study revealed a non significant impact of gender diversity on market performance as well as on accounts of companies. The results further recommended that higher percentage of youth in top level management of companies has significant effect on the performance of companies.

Kurup et al. (2011) examined 166 Indian companies from 1995 to 2007 The study concluded that during the period of analysis in all out of 23525 directorship, women held only 2.64% directorship positions. The women in India hold only 5.4% directorship that is much lower than women directorship in Canada, USA, U.K., Hongkong and Australia. The private sector banks, employment in public sector banks and tie with family are the main sources for female directorship.

Yasser (2012) examined Karachi Stock Exchange-100 indexed companies during a time span of two years from 2008 to 2010 in Pakistan. The results reported that only one-fourth of companies were employed at least one female participant in the board. The ratio of Female CEO was 33 percent. The statistical results of empirical study indicated a non significant relationship between gender diversity and financial performance of firm. The study documented a negative relationship between high percentage of female participants on board and Economic Value Added of companies.

Balasubramanian (2013) examined the companies with respect to gender diversity related to Bombay Stock Exchange and National Stock Exchange. The results found that 53 percent women held positions of directors in BSE-100 boards which are non significant as compared to Canada, US and U.K in 2010. Only 4 family based board BSE-100 companies out of 13 had the women in the board. In NSE listed companies revealed that only 4 percent of women hold directorship position in their companies. The results indicate a non significant

participation of women on the board in Indian companies as compared to companies from other corner of the globe.

Larcker and Tayan (2013) examined the companies listed with Fortune 250 in 2012. The results observed that approximate 40 percent of the women attained the board directorship for the very first time due to their qualification and experience in the research. This study observed that equal gender diversity on board (50 percent male and 50 percent female) found incremental in the board independence. The study suggested that multi dimensional approach of female empowered them with the capability of examine the risk and available information better than their male counterparts.

Chakrabarty and Bass (2014) evaluated 280 Microfinance Institutions established across 59 countries operating at Bottom of Economic Pyramid (BOP). The main purpose of study was to examine the relationship between gender diversity on Board and sustainability of firm. The research documented a significant importance of female directors on the effective corporate governance of companies as their presence helps to achieve the financial and social targets.

Mori N (2014) conducted a study to examine 105 boards of directors from 63 Micro finance institutions to measure the impact of board diversity on their performance. The samples of micro finance institutions were taken from, East African Nations, Kenya, Tanzania, and Uganda. The results show a non significant effect of female directors on boards of Micro Finance Institutions. The findings of study implied that women directors do not add value to the Micro Finance Institutions.

Jindal and Jaiswall (2015) probed 219 National Stock Exchange (NSE) listed Indian companies. Out of sample of 219 companies, 140 companies were family firms whereas 79 were non-family companies. The results of study reported a negative relationship between Return on Assets (ROA) and monitoring of firms. The statistical outcome documented in the report reflects a negative association between board diversity and firm performance.

Garcia and Emma (2015) studied 159 banks that were listed in nine countries for a period of six years from 2004 to 2010. The researchers investigated the impact of board diversity on the performance on the banks. Gender and Nationality were considered two fundamentals parameters of evaluation. Return on Assets (ROA) and Tobin's Q were devised as proxy for measuring the financial performance of companies. This study produced the concluding remarks that with increase in percentage of women in the boards of companies, the stock prices become less volatile. It further supports the positive impact of gender diversity on

bank's performance. The results of study suggested that the presence of women directors on the board enhance the financial performance of the banks in those countries where financial regulatory bodies have strict regulations to protect the interest of investors.

Arora and Kumar (2016) studied 1466 NSE listed companies and 217 non- listed financial companies in India. The aim of study was to evaluate the presence of women directors on Board of companies across the globe as compared to Indian companies. The results of study revealed that Indian companies incorporate less percentage of women at top positions in their board as compared to their global counterparts. Due to prevalent glass ceiling trend, Indian women director feel less importance in the decision making process.

Vishwakarma (2017) examined the impact of female directors on board on the Micro-Finance institutions. The study took a sample of 50 micro Finance Institutions from India during a period from 2011 to 2014. Panel data analysis was applied to achieve the objectives of study. The study observed that women directors have positive impact on the performance of Micro Finance Institutions. The statistics depicted a significant positive impact on Return on Assets (ROA) due to female inclusion on the board of financial institutions. The results indicated that the women representation at top level management or on the boards stretch its positive influence not only on the financial performance but also on the social image of financial institutions.

Adusei et al. (2017) evaluated the impact of board gender diversity on Micro finance institutions during a period of four years from 2010 to 2014. The research data was compiled from 494 micro finance institutions across 76 nations. The results of study documented negatively significant relationship between gender diversity and financial performance of Micro finance institutions. The statistics reflected that if the female participation on the board increases beyond 50 percent then it has negative influence on the financial performance of banks.

Shehata et al. (2017) investigated UK based 34,798 small and medium sized enterprises (SMEs) during a period from 2005 to 2013 to analyze the relationship between board diversity and performance of companies. The empirical results of study show a negative relationship between gender diversity and firm performance. The results of study indicate the non significance of inclusion of women on board. The findings recommended inclusion of young members in the board to enhance the performance of companies.

Zehra and Sarim (2017) enquired into top 10 public as well as top 10 private companies to analyze the effect of gender equality on the Boards. The comparative analysis of companies was performed to analyze the number of female directors, their education qualification,

percentage of women directors on the board, criterion to appoint female directors and their effect on performance of the companies. The results show the higher percentage of women directors on the board as compared to public companies. The statistics shows that women leaders are enable to leave their limited imprints on the corporate houses in India like ICICI. The study suggested that limited gender diversity is still a grave concern in the corporate governance of companies.

Chandani et al. (2018) analyzed the impact of gender diversity on performance of 10 banks of Pakistan. The study was conducted during a time span of 12 years (2005 to 2016). Return on Assets (ROA) and Return on Equity (ROE) were taken as proxy for measuring financial performance of banks. Linear regression model was applied as statistical tool to analyze the compiled financial data of banks. The results found that the presence of women directors does not boost up the performance of banks. The statistical regression model indicated an inverse relationship between Earnings per share and increase in number of female participants on the board of financial institutions. The study concluded that gender diversity has non – significant impact on the performance of banks in Pakistan.

Endraswati (2018) inspected 11 Sharia banks in Indonesia from FY 2011 to FY 2015. The financial institutions were examined on the parameters of tenure and educational qualification of women directors and size of the Sharia banks. The results of the study explored a feeble participation of female directors in Indonesia as compared to other countries. The empirical outputs found that tenure of women directors, educational level of women directors and size of the banks has positive impact on the performance of the banks. The study portrayed that Return on Equity (ROE) of Sharia banks is adversely affected by the percentage of women directors on the board.

Owen and Temesvary (2018) studied the presence of women directors in the board on the performance of banks. They studied 90 US banks for a period of 16 years ranging from year 1999 to year 2015. The empirical results of study found a non – linear relationship between gender diversity and bank performance. The study observed a positive effect of role of women directors on bank performance up to a specific threshold limit. The results further recommended that increase in number of women on boards in banks and other financial institutions enhance the values of the banks.

Research Gaps

From the foregoing Review of Literature, it is observed that various studies have been conducted to measure the effect of gender diversity on the performance of firms. It has been detected that very few studies have been conducted on the commercialized banks in India.

Majority of research studies have been confined to other industrial sectors and SMEs. A significant percentage of studies took Return on Assets (ROA) and Return on Equity (ROE) as the proxy for financial performance of firms. But the market performance, risk adjusted return and other important factors like Enterprise Value have been remain untouched in context of performance of banks. No earnest attempts have been made to measure the effect of gender diversity on the stock performance of banks in India. The present study aims to make an endeavour to delve into little deeper in this direction as per the current business and corporate governance scenario and to examine the effect of gender diversity on performance of commercialized banks from multi- dimensional aspects.

Objectives

The main objective is to study the impact of gender diversity on profitability of banks. In the light of main objective, the following specific objectives have been formulated:

1. To examine the impact of gender diversity of board members on Risk performance of banks.
2. To examine the impact of gender diversity of board members on the lending practices of banks.
3. To examine the impact of gender diversity of board members on market price performance.
4. To compare the relationship between the gender diversity of board members and profitability of public and private sector banks.

Research Methodology

Scope of Study

The study will confine its scope to the selected public sector and private sector banks with effect from the financial year 2013.

Sample Size and Time Frame

The sample of study will focus on the selected public sector banks and private sector banks from India will be taken as sample for the present study. The financial panel data from the financial year 2013 will be collected for execution of present study.

Sampling Unit

Each commercial bank from public sector and private sector will be considered as one unit.

Data Sources

The present research study will be purely based on secondary data. Secondary data about financial variables will be collected from the annual reports of the banks. The annual financial reports will be downloaded from official websites of banks. The requisite historical

information about Board composition will be collected from databases like CAPITALINE, CMIE and Registrar of Companies Act. The historical record of stock performance of banks will be extracted from official website of Bombay Stock Exchange (BSE).

Research Variables

The following research variables as independent and dependent variables will be used:

1. **Dependent Variables**

   The profitability of banks will be examined by following tentative financial ratios based on literature review.

   a) **Return on Equity (ROE) –** Chandani and Mabood (2018) applied Return on Equity to measure the financial performance of banks.

   $$\textbf{Return on Equity} = \frac{\text{Profit After Tax}}{\text{Shareholder's Equity}}$$

   b) **Return on Assets (ROA)** – Return on Assets indicates the efficiency of firm to convert its assets into profits. Gafoor et al. (2018) and Darmadi (2011) asserted on the significance of applying ROA as an indicator of financial performance of firm in their respective research studies.

   $$\textbf{Return on Assets} = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

   c) **Revenue to Expense Ratio –** Revenue to Expense ratio indicates the efficiency of banks **(**Owen and Temesvary, 2018).

   d) **Enterprise Value –** Enterprise value of a company reflects as the proxy for market value of firm (Bhullar, 2013).

   Enterprise Value (*EV*) = Equity Value (Market Capitalization) + Net Debt + Preferred Stock + Minority Interest – Cash and Cash Equivalents

   e) **Risk Adjusted Return** -Risk adjusted return will be measured by Sharpe Ratio (Owen and Temesvary, 2018; Berger et al. 2014).

2. **Independent Variables**

   Gender diversity in board of banks will consider as independent variable. Gender diversity will be measured in terms of percentage of women in the board room (Abad et. al., 2017)

   $$\textbf{Gender Diversity} = \frac{\text{Number of Women Board Members}}{\text{Total number of Board Members}} * 100$$

To avoid the homogeneity of board (The board comprises only Male or Female) , Board diversity is confirmed by devising Blau Diversity Index (Blau, 1977)

Blau Diversity Index = $1 - \sum_{i=1}^{n} P_i^2$

Where P_i = Percentage of Women Board Members

The value of Blau Diversity Index ranges from 0 to 0.5. At 0.5 the board of any company has maximum gender diversity.

0 brings the homogeneity in the sample of banks, we have set 10% gender diversity in board room as critical threshold.

3. **Control variables**

Board Size and Bank Size (Yasser, 2012; Gafoor et al., 2018) will be taken as control variables. The rationale behind employing these variables as control variables is their proven negative relationship with firm performance (Yermick, 1996). Bank Size will be taken on the basis of market capitalization.

Statistical Techniques

Panel Data Regression Analysis will be devised to measure the impact of gender diversity on the financial performance of banks. Statistical softwares like SPSS, STATA will be used to apply statistical techniques like Factor Analysis, SEM etc.

Chapter Scheme

1. Introduction
2. Literature Review
3. Research Methodology
4. Result and Discussions
5. Summary of Findings and Recommendations

Implications of study

The study provides a new variable framework that has been suggested after considering current business scenario. The future research study may target the psychological factors of genders on the performance of banks. The future research fraternity may extend the finding of study to the under developed and emerging countries in banking sector on the basis of new variables.

Policy or Practitioners' Implications of Study

It helps the regulatory bodies to find an appropriate balance of gender diversity on board of corporate houses. The instructive nature of findings may guide the banks in formulating more

monitoring board that will lead to high corporate governance in banks. The companies should encourage women as board members by providing them opportunities to utilise their untapped leadership potentials for the growth of companies by breaking glass ceiling phenomenon in the corporate world. The results of study may act as guidelines to investors, on the basis of findings of study whether investors should consider gender diversity before investment or not.

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